

# Assessing the Effects of Rental Default by Commercial Property Occupiers on Property Management in Minna, Niger State, Nigeria

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## Abstract

One of the fundamental roles of a property manager in the property management process is his ability to collect rent on behalf of his client (landlord); rent is collected and given to the landlord to enable him to meet his investment needs. When rent arrears occur this could hinder the property owners or managers from attaining their objectives for investing in real estate. This paper fundamentally looks at the effect of rental default by commercial property occupiers on property management with experience from Minna, Niger State which is the study area. Thirty-eight property managers in the study area were surveyed with a structured questionnaire, twenty-eight were returned with a response rate of 74%. Data collected were analysed using descriptive statistical tools, analysis of the primary data depicts eleven (11) effects of rent defaults on commercial property management, of these eleven effects, income loss, reduction of annual rental yield and delay in payment of agent dues with an average means score of 3.91, 3.87, and 3.83 respectively, were ranked as the three most significant effects. The study recommended that property managers and owners should make adequate insurance provisions to protect themselves against rent arrears. Additionally, whenever any tenant fails to meet up with the agreement provided in the tenancy agreement without any genuine reason should be made to face the law.

**Keywords:** Rent, Rental Default, Commercial Property, Occupant, Property Managers.

## Introduction

The management of commercial property is for optimum returns and is also a fundamental area in the real estate profession. These returns usually come either as regular income streams or lump sum depending on whether the subject property is put up for letting or sold outrightly. Among the advantages of commercial real estate is its ability to stimulate the economy and increase gross domestic product (Brown and Petersen, 2015). Continuously generated income from commercial real estate comes through renting, leasing, or price growth. It makes up a sizable portion of the real estate markets and is utilized as a form of investment that pays its holders according to value. Additionally, it contains undeniable proof of revenue that may be used to

calculate returns on investment and sold in the real estate markets (Bello, 2006).

However, maximum returns on property investment, particularly in commercial property, can be realized when the property is properly managed. Property management involves a range of functions concerned with taking care of buildings, including rent collection, payment of rates, maintenance as well as repair, provision of services, along negotiations with tenants or prospective tenants (Mwathi and Karanja, 2017).

In Niger State, particularly in Minna, after the initial advance rent or lease has expired, the subsequent payment of rent or lease most times becomes problematic (Kemiki *et al.*, 2018). Most prospective tenants who were eager to meet the terms, conditions and

requirements normally set for new tenants often become recalcitrant no sooner than they had taken possession of the accommodation (Louis *et al.* (2019). Not only do they default on rent payments, they often fail to comply with responsibilities as stipulated in the covenants of the tenancy. According to Folorunso & Ogunbajo (2022), the rate of rent default amongst the tenants in Minna is becoming alarming and it is pertinent however to state the success of investing in commercial properties. The main aim of this paper is to assess the effect of rental default by commercial property occupiers on property management in Minna, Niger State.

### **Study Area**

Figure 1, depicts the study area of Minna Niger State, with a focus on the geographical arrangement. Minna is made up of two local government areas, namely Bosso and Chanchaga. The capital city of Minna, which hosts around 65% of the state's commercial operations, is crucial to the economic landscape of Niger state. The city has naturally fertile soil suitable for growing many different crops, including cotton, ginger, guinea corn, yam, and corn, which promotes agricultural development in the area. Minna is important for agriculture, but it also supports several other industries. The city's involvement in cattle breeding, trading, and gold mining adds to its thriving economy. In addition, Minna is well known for its shea nut processing business, an essential addition to the city's financial and economic landscape (Ministry of Lands and Housing Minna, 2020).

### **Review of Relevant Literature**

Oyewole and Ajayi (2016) studied how the physical quality of property affects the performance of office buildings in Lagos, Nigeria. The study identified these qualities as the building's age, size, typical floor area, building services, the status of repairs, fixtures, and design quality. Furthermore, the relationship between these qualities and the return on investment was established. The findings show that building age and

building services significantly impacted the revenue performance of office spaces. Other physical factors including average floor area, building size, maintenance status, design caliber, and fixtures and fittings have no statistically significant impact. Overall, the property's age has the biggest impact on how well the office property performs in the property market.

To find a way to lessen the incidence of tenant eviction, Akogun and Ojo (2013) investigated the reasons for it as well as the procedures used in the Nigerian metropolis of Ilorin. Using a questionnaire, the study collected data from registered estate surveyors and valuers in the study area. Mostly descriptive statistical methods, such as frequency distribution tables and percentages were used to evaluate the data. Findings disclosed that rent is the major reason for tenant eviction, which accounted for 57.66%.

Ayodele *et al.* (2020) investigated how the coronavirus outbreak affected residents' capacity to pay for housing in Bauchi, Nigeria. Data on the capacity of 493 tenants to pay their rent from January 2019 to April 2019 was contrasted with data on the same tenants' ability to pay their rent from January 2020 to April 2020. Using SPSS version 25, the data collected from 25 real estate agents were analyzed using descriptive (mean) and inference statistics analysis (paired sample correlation and paired sample T-test). Rent defaulters have not increased to an alarming rate despite the presence of COVID in the research area, indicating that the coronavirus outbreak does not considerably have an impact on tenant rent-paying obligations. The study did advise the government to help the few renters who were unable to pay their rent because of the COVID-19 outbreak. Rent obligations should also be split equally between the landlord and the tenants. The study also suggests that during the pandemic, the government prohibits landlords from evicting tenants from their homes.



Figure 1, Map of Niger State, Showing Minna

Outside the shores of Nigeria, Moss (2003) investigated the root causes of tenant rent default in South Africa's social housing system. The study employed a questionnaire survey to gather data from respondents who are residential renters in the study location. Both descriptive and inferential statistical techniques, such as mean, frequency, and regression analysis, were used to analyze the data. According to study findings, affordability, arguments over housing unit conditions, ambiguity over the kind of tenure, and the current tenant entitlement culture are the main causes of non-payment of rent in the study area.

Ibanez and Pennington-Cross (2013) examined the dynamics of office, industrial, flex, and retail space rent in 34 significant U.S. locations. The study concentrated on the market rental rate and how it varies over time for the space offered by commercial real estate. The study stressed how crucial it is for rental rates to accurately represent the value of the services offered by the property because this has a big impact on tenants' capacity to pay rent. The study compares four property types and uses from the second quarter of 1900 through the second quarter of 2009. According to the results, the office market is the slowest to return to equilibrium, whereas the industrial and flex markets return to long-run equilibrium very quickly. The study revealed that office and industrial property types are strongest for

grade A properties, and the speed of adjustment is substantially faster within quality segments.

Salleh *et al.* (2014) researched the elements affecting Malaysian public housing renters' capacity to pay rent. Utilizing the stratified sampling technique, 350 occupants of public housing were given questionnaires to complete. Only ethnic group characteristics significantly influenced the ability to pay rent, according to this study's findings. In addition, the study's results showed that different ethnic groups had varying housing cost liabilities due to varying socioeconomic situations.

Oladokun and Ojo (2012) assessed the issues with Nigerian commercial property management practices. It aims to pinpoint the elements that, if taken into account, could materially hinder investment from achieving their specified goal. In Lagos State, Nigeria, 270 active estate enterprises received questionnaires, 159 (59%) of which were returned and useful for the study. The study used the relative importance index (RII) for analysis together with the descriptive methods using percentages, averages, and proportions. According to the study, the main elements or issues that are seen as issues in the management of commercial properties in Lagos State are high rent, cumulative maintenance issues, the need for electricity

and plumbing, cash flow requirements, and the cost of construction, in that order. These issues have positive relative importance indices of 1.80, 0.98, 0.93, 0.75, and 0.65, respectively.

The analysis results also revealed that other elements with negative derivations of 0.58, -0.64, -0.72, -0.74, and -0.82 are regarded as less important, including heating or cooling concerns, failure to disclose fees, a lack of negotiation skills, a lack of access to a qualified attorney, and improper handling of a caution deposit. The study suggested that the professional organization create a framework that will help members build the necessary skills and client connections for efficient practice.

Sani and Gbadegesin (2015) analyzed the reasons for rental default in Kaduna, Nigeria. The study adopted the use of a questionnaire to collect relevant information from the practicing estate surveyors and valuers. The retrieved information was analyzed and represented using a 5-point Likert scale. The primary cause of a tenant defaulting on rent payments was found to be the landlord's failure to fulfill their responsibilities for property maintenance. Other issues include tenants' unstable income, a lack of effective tenancy laws, a lack of tenancy management, and a lack of flexibility in landlords' instructions and rules on rent collection. The study also found that practically all renters in urban rental properties have trouble making their payments.

Olukolajo *et al.* (2015) looked at the rent default trends and profiles of tenants in Akure's residential real estate market. An "acquaintance form" filled out by 496 renters and distributed to 19 estate surveying and valuation companies in Akure, Ondo State, Nigeria, provided information on their characteristics. To get at the study's conclusions, statistical analysis using both descriptive and inferential methods was used. Using binary logical regression modeling techniques, it was discovered that the occupation of potential tenants, their ability to provide a

guarantor, their recommendation letter, their marital status, the size of their household, their level of education, and their tribe were all significant factors. The household size, with an odd ratio of 15.96, was the best predictor of rent default tendencies. Among other things, it was recommended that landlords and their representatives step up their efforts to prevent rent default situations by proper tenant screening.

In Ede, Nigeria, Dabara *et al.* (2014) investigated how tenants of commercial property perceived their lease structures, terms, and durations (LSTD). The occupants of the research study area were surveyed using a questionnaire to gather information. 917 stores in prominent Ede commercial zones made up the study's target population. 12% of the population made up the sample size that was used. The sample size for the investigation was chosen using the random sampling method. Shop owners in the research area completed 150 structured surveys. However, only 113 questionnaires, 75% of the respondents were tenants. Utilizing both descriptive (frequency and percentage) and inferential (multiple regression) statistics, the findings from the 113 replies were compiled and examined. The majority of tenants in the study region are content with their existing lease lengths, which are typically one year (renewable), however most, tenants are dissatisfied with some of the conditions in their lease structure. The government should take action to stabilize the LSTD in Nigeria to influence the rental market there. Additionally, leases should be drafted in a way that will satisfy and be acceptable to both lessees and lessors as it would help resolve the mismatch between what occupiers desire and reduce conflicts and constant conflicts experienced among stakeholders in the Nigerian rental property market.

Dabara *et al.* (2017) investigated the root causes of rent default among renters of residential properties in Osogbo, Osun State, Nigeria. The tenant respondents were chosen using a random sample technique

and questionnaires were used to retrieve data from both tenant and manager firms. In analyzing the retrieved data, descriptive and inferential statistics were used. The results found that unemployment or retrenchment are the most important variables influencing rent default in the study area, with R.I. I, 0.854 and R.I. I, 0.504, respectively while the least important factor influencing rent default in the study area is a unilateral rent increase by property owners. The study also recommends that periodic inspection of properties and careful selection of tenants could help reduce the menace of rent arrears in the study area.

Kemiki *et al.* (2018) also investigated the factors contributing to rent arrears in residential properties in Minna, Nigeria. A cluster random sampling technique was adopted for selecting the area of focus, structured questionnaire was used to retrieve primary data from rentals who are the household heads in the twenty-five (25) neighborhoods in Minna. Descriptive and inferential statistic technique was adopted in analyzing the data. The study also used a survey-based methodology, and the results revealed that the most significant causes of rent arrears in the study area across all the neighborhoods were poor economic conditions, frequent rent reviews, a lack of an appropriate budget, and deteriorating dwelling unit features. The study recommends that property managers make adequate insurance provisions to protect themselves against rent arrears.

Thambu (2019) investigated the effects of rent default on the return on real estate investment in Nairobi County. The study used an explanatory research design in its attempt to achieve the purpose of the study. A purposive sampling technique was used to select the population for the study, the intended audience included all 26 registered real estate firms in the study area. The sample size for the study is 130 respondents using a convenient sampling technique. Questionnaire were distributed to the chief executive officer, two real estate managers and finance managers of the firms in the study area. Out of 130 questionnaires

distributed, 103 of them were dully filled and retrieved by the researcher with a response rate of 79.2%. Data were analyzed using both descriptive and inferential statistics. Component factor analysis and regression analysis using the simple Ordinary Least Squares method were also performed using SPSS (OLS). The results of the investigation show how their inability to pay maintenance costs affected their ability to collect rent. The largest influences on real estate returns were the incapacity to pay for maintenance costs and the total sum invested in real estate over a given time.

Louis *et al.* (2019) investigated the reasons for tenancy disruption and its effects on real estate investment in Anambra State. The study used a survey approach. The research was carried out to better inform investment decisions. Simple random sampling was used to establish the sample size for the study. Simple random selection was used to distribute 396 questionnaires to respondents in the three major Anambra State cities of Awka, Nnewi, and Onitsha. The results indicated that non-payment of rent, habitual late rent payment, and breach of contract are the most significant causes of tenancy disruption in Anambra State, while loss of income to the landlord or investor, void on properties, and delayed mortgage loan repayment are the most significant consequences. If correctly applied in property management methods and services, the study's recommendations for preventive action might assist in preventing tenancy disruption in the study area.

## **Methodology**

The study area for this research work is Minna, Niger State. The population for the study comprised 38 property managers of the 38 purpose-built shopping complexes in the study area. the intended audience was gotten from the Niger State Board of Internal Revenue portfolio. A questionnaire survey was conducted to receive information from the respondents. A total of 38 questionnaires were administered to the property managers who were the managers of all the purposed-built shopping complexes covered in the study. A

purposive sampling technique was adopted in distributing questionnaire to the targeted population. The reason for adopting this technique was to access and gather information from the population that is of interest which in this case were the property managers. Out of the Thirty-eight questionnaires distributed, twenty-eight were returned with a response rate of 74%. Data retrieved were analyzed using mean  $(r_1+r_2+\dots+r_n)/n$ . The mean was ranked to determine the most significant effect of rent default on property management and the results of analysis were represented in a table.

## Results and Discussion

Table 1 revealed that the most noticeable effect of rent default on property management was that it causes income loss, with a mean score of 3.91. This was followed by its effect on annual rental yield with 3.87 scores. "Causes delay in agent fees" came third with a score of 3.83, while delay in payment of salary, with a mean score of 3.70, came fourth. Conflict between landlord and property managers, with a mean score of 3.65, came fifth, while the inability to recoup initial cost outlay, with a mean score of 3.61, came sixth. The seventh and eighth were that it causes the void of commercial shopping complexes/plazas and challenges in commercial property maintenance plans, with mean scores of

3.32 and 3.09, respectively. Furthermore, it affects funds for other operations, discourages property managers from managing commercial properties, and payment of tax to the revenue board in the study area which recorded ninth, tenth and eleventh with 2.87, 2.74 and 2.70 scores, respectively indicating a weak effect on property management.

The findings from this work differ from the work of Thambu (2019), in his study on the effect of rent default on the return on real estate investment in Nairobi discovered the inability to cover maintenance expenditures and the overall amount invested in real estate during a specific period was the strongest effect of rent default returns. Louis et al. (2019) in his study also investigated the effects of tenancy disruption on real estate investment in Anambra State. The study showed that the most consequential is the loss of income to the landlord. Furthermore, this supports the result from this study that the effect of rent default by tenants causes loss of income to the landlord which invariably affects the management of commercial properties which was the strongest effect of rent default on property management in this study area with a mean score of 3.91. Furthermore, the least weak effect was that it affected the payment of tax to the revenue board in the study area which recorded a means score of 2.70.

**Table 1: Effect of rent default**

Effect of rent default	Weighted Sum	Mean	Rank
Affect Funds for other operations.	66	2.87	9 <sup>th</sup>
Discourage property managers from managing commercial properties.	63	2.74	10
Affect Annual rental yield.	89	3.87	2 <sup>nd</sup>
Challenges in commercial property maintenance	71	3.09	8 <sup>th</sup>
Causes Void of commercial properties.	73	3.32	7 <sup>th</sup>
Inability to recoup initial cost outlay.	83	3.61	6 <sup>th</sup>
Delay Payment of salary.	85	3.70	4 <sup>th</sup>
Affect Payment of tax to the revenue board.	62	2.70	11 <sup>th</sup>
Income loss.	90	3.91	1 <sup>st</sup>
Causes delay agent fees.	88	3.83	3 <sup>rd</sup>
Increases conflict between landlord and property managers.	84	3.65	5 <sup>th</sup>

## Conclusion and Recommendations

The effects of rent delinquency on property management were the subject of the study. It reached a definite conclusion by pointing out various essential consequences of such defaults. These consequences included deterring potential investors, putting off agent fees and salary payments, causing disputes between landlords and property managers, and making it difficult to reinvest the collected rent. The main effects of unpaid rent on property management in the research area were determined to be these outcomes. In addition, the study provided helpful advice for resolving the problems found. To protect themselves from potential rent arrears, it first urged property managers and owners to implement suitable insurance provisions. This preemptive step safeguards against monetary losses brought on by rent default scenarios. The study also emphasized the need for government intervention to protect property managers and landlords from income losses brought on by rent arrears. Establishing suitable systems to ensure these stakeholders' financial stability is crucial.

The study also promoted legal sanctions in cases where renters breach their tenancy agreement commitments without a good cause. Tenants are made accountable for their obligations by enforcing legal repercussions for such violations, which promotes accountability and adherence to the terms of the agreement. In conclusion, the study provided insightful information about how rent default affects property management and suggested workable solutions to problems. These suggestions emphasize the value of proactive measures, government assistance, and legal enforcement to establish a more secure and stable environment for property management.

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